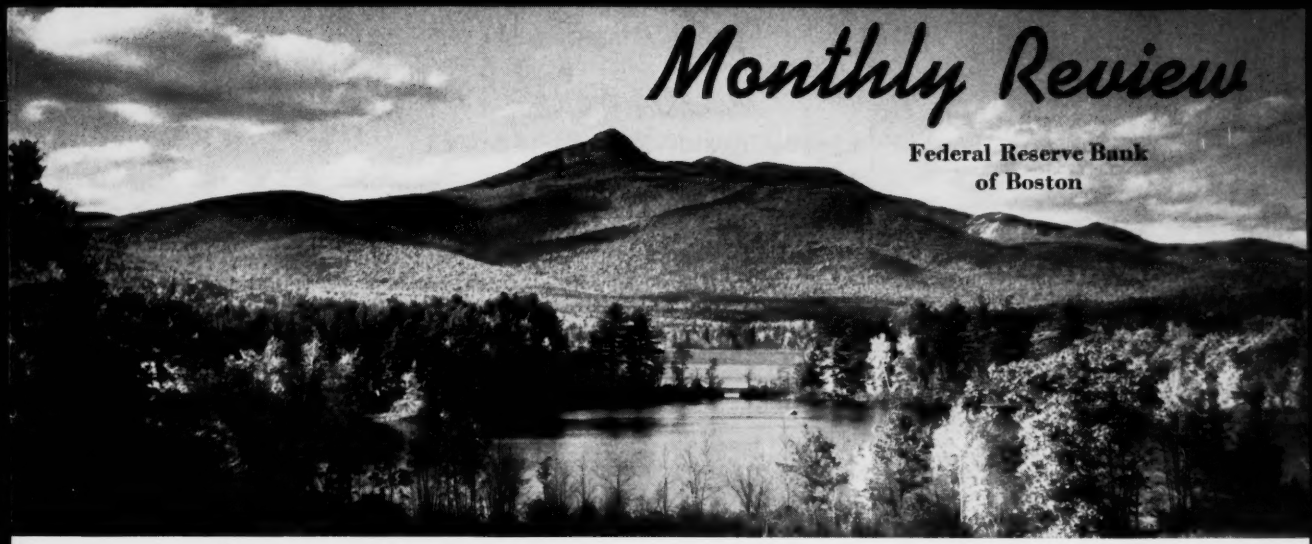
Monthly Review

Federal Reserve Bank
of Boston



AUTUMN IN NEW ENGLAND: Mt. Chocorua, New Hampshire (*Photo by* Winston Pote, A. Devaney, Inc., N. Y.)

EASTERN WHITE PINE

Nature's Gift to New England

IF YOU TRAVEL any distance in New England, you will see white pine trees frequently whether you realize it or not. Eastern white pine, called *Pinus strobus* by the botanists, is one of New England's more distinctive landmarks. Although this tree also grows in New York State, Pennsylvania, the Lake States, and to some extent in other parts of the Northeast, in no other part of the country is it so abundant over as wide an area or so persistently trying to hold its own as in New England.

Even more significant than the landscape value of New England white pine is its economic importance as a first-class commercial timber tree. Forty per cent of all the white pine lumber produced in the United States in 1947 — Idaho pine and California sugar pine included — came from New England.

Eastern white pine is the tree that made Maine famous as a lumber state during the first half of the 19th century. After 1850, the tree brought the same type of fame to New York, Pennsylvania, Michigan, and Wisconsin. Throughout the century the demand for white pine as general-utility lumber surpassed that for any other species. Chicago, Detroit, Cleveland, and other midwestern cities were practically built of white pine lumber during their early years. Eastern white pine made up more than half the country's softwood lumber cut for 25 years following the Civil War, and probably also throughout the first 65 years of the 19th century.

A substantial part of New England's economy is based upon its forests. The forest industries — pulp and paper, furniture, veneer and plywood, wood turnings, wooden containers, general millwork, and other wood manufacture — provide nearly ten per cent of New England's manufacturing jobs. Forest products, raw and finished, comprise more than 30 per cent of the revenue freight tonnage in carload lots originating on New England railroads.

White pine plays only a minor part in the pulp and paper and furniture industries. It is of major importance, however, in the general lumber and wooden box industries. It is also used for making toys, various types of pails and tubs, and many other wood products.

High quality eastern white pine was formerly the preferred wood for pattern making. It is still eagerly sought for that purpose, but only a small part is of pattern grade today or has the quality required for millwork, sash and doors, or interior trim. This reflects New England's indifferent forestry practices in the past, not the inherent characteristics of the tree.

During the four-year period 1906 through 1909, New England's sawmills turned out more than 3.8 billion board feet of white pine lumber, almost a billion a year. That was 37 per cent of New England's total lumber production during the period. White pine's importance as a lumber tree is relatively greater today than it was then. From 1943 to 1947, white pine made up nearly 65 per cent of New England's total lumber production of slightly less than 5.3 billion board feet. It is, by far, New England's most important lumber tree. It is practically without competition for many productive

Eastern white pine gave Maine its nickname—the pine-tree state. It is still New England's most important lumber tree, and New England is the country's largest single source of white pine lumber. Cutting and marketing various forms of white pine wood adds nearly $80 million to New England's annual income.

Cutting is in excess of growth, however, and the reserve supply in the forests is shrinking. With better forestry methods New Englanders can increase the annual growth of this valuable tree many times over. The purpose of this article is to direct attention to the reasons why a "more white pine for New England" program is needed.

uses and strongly competitive in others. It was a good tree in the old days, and it is a good tree now. With the right kind of encouragement it can assume a still greater degree of importance.

In eight recent years New England has produced nearly five billion board feet of white pine lumber, an average of 622 million feet a year (see Table I).[1] The lumber production figures indicate only the largest single element of commercial drain on the stand of white pine in the forests. There is also some utilization of white pine for pulp and other purposes.

The New England Wholesale Lumber Association estimates that 50 to 60 per cent of New England's white pine lumber-output is used for local construction purposes, including repairs, chiefly in the three northern states. It has been estimated that wooden-box manufacture within the region absorbs between 15 and 20 per cent. Local use for construction and box making may thus account for around three-quarters of the supply. Some of the remaining 20 to 35 per cent is shipped to other regions as box and crate stock, as lumber for other industrial purposes, and to some extent as building material. The balance provides raw material for wood-using industries other than box making in New England.

The Value of White Pine to New England's Economy

Data are lacking for a precise measurement of the value of white pine to New England's economy. It is possible, though, to piece together bits of information and arrive at an estimate that white pine provides income at the rate of more than $70 million annually.

The part that local box manufacture contributes is perhaps the easiest to figure with fairly close accuracy. Its contribution amounts to about $11 million per year.

It has been estimated that the average quantity of white pine currently going into box manufacture in the region amounts to 117 million board feet per year. Box lumber is usually unplaned, and most of it comes to the box plant with the bark still adhering to the edges of the boards. Round-edge, dry white pine box-lumber was quoted at $35.00 to $40.00 per thousand feet, f.o.b. sawmill, just prior to the outbreak in Korea. The average transportation cost from sawmill to box plant has been estimated at $7.50 per thousand. If the average f.o.b. sawmill price is taken to be $37.50, the average cost at the box plant is $45.00 per thousand board feet.

Manufacture of white pine into boxes and shook (parts of boxes), allowing for waste, doubles the value and brings the figure up to $90.00 per thousand feet. Transportation of finished boxes and shook from the box plant to its customers adds approximately $5.00 more and brings the total to $95.00 per thousand board feet. One hundred and seventeen million feet at $95.00 per thousand is $11 million.

Use of white pine lumber for construction and building repair adds at least $27 million to New England's income. Number four common white pine, planed and seasoned, was quoted at $74.00 to $83.00 per thousand feet at the sawmill in early July 1950. Allowing for a percentage of higher grades and for the ups and downs of the market, an average price of $75.00 per thousand is a conservative estimate of the price which New England sawmills have been receiving for white pine lumber suitable for construction and general-utility purposes. On this basis, the nearly 350 million feet per year currently being used for construction in New England is bringing the sawmills an annual income of at least $25 million. Transportation from mill to building site adds another $2.5 million.

The remaining 150 million board feet per year are shipped to points outside New England or are consumed in other local industries. These uses probably have unit values at least equal to that for the domestic manufacture of boxes. One hundred and fifty million feet at $95.00 per thousand is more than $14 million.

The total value for all uses of New England white pine lumber described above is about $52 million a year. A small part of the lumber also goes through wholesale and retail distributors. An additional allowance should be made to cover their costs of storage, handling, and transportation to customers.

What would New Englanders have to pay for lumber from outside if the native supply of white pine were not available? Southern pine "roofers" may be used for purposes of general comparison, even though they could not be satisfactorily substituted for native white pine in many of its applications. During recent years the price of southern pine roofers delivered to Boston wholesalers in standard widths has fluctuated around $90.00 per thousand. Allowing for wholesale and retail marketing costs and higher prices in northern New England, it appears that the average cost to New England consumers has been at least $115 per thousand in recent years. If New Englanders bought southern pine roofers at the rate of 622 million feet a year, instead of using native white pine, they would have to pay more than $70 million annually. Other types of lumber from other regions show similar excesses.

Not all white pine cut in New England goes into lumber. Some is used for wood-pulp manufacture. Some skips the lumber stage with direct utilization from the log. Cooperage is an example. The indications are that we should add $20-25 million to the $50-55 million shown above to allow for these uses, for the savings resulting from the use of local material, and for the superiority of native white pine in many of its uses. Therefore, the total economic value of eastern white

Table I

PRODUCTION OF WHITE PINE LUMBER IN NEW ENGLAND 1940-1947

Year	Board Feet Produced (000's)	Year	Board Feet Produced (000's)
1940	339,599	1944	744,040
1941	579,287	1945	612,961
1942	657,307	1946	726,269
1943	626,346	1947	687,175
		Total	4,972,984

Source: U. S. Bureau of the Census.

[1] Some pine lumber may have come from logs brought in from other regions, including Canada. On the other hand, some New England timber may have been manufactured into lumber outside the region.

pine to New England probably ranges from $70 million to $80 million a year.

The Reserve Supply

How much white pine do we have? What are the prospects that New England can continue to draw major economic benefits from this tree? Can these benefits be increased to keep step with the necessary expansion of New England to avoid economic stagnation? These are timely questions to which at least partial answers are available on the basis of existing information.

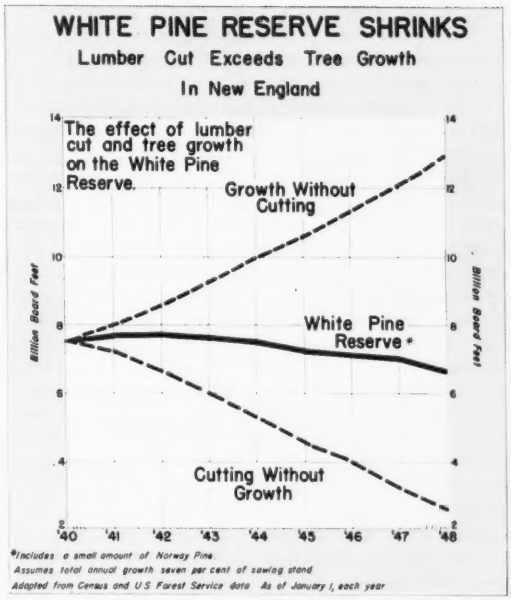
The accompanying chart shows that the total stand of white pine in New England was 7.3 billion board feet in 1945. More than half was in Maine and nearly 20 per cent in New Hampshire. Massachusetts had 13 per cent, Vermont, 11, and there was two per cent in Rhode Island and Connecticut.

It is startling to realize that lumber manufacture alone, from 1940 through 1947, took a quantity equal to about two thirds of the white pine reserve available in 1945. Fortunately, a part of the lumber cut came from timber that grew during the period. White pine trees do not mature in eight years, but every tree in the woods increases in size every year. Although there have been no accurate measurements of the total annual white pine growth in New England, it is possible to arrive at a usable estimate.

Figures supplied by the New Hampshire Forestry and Recreation Commission, based on unpublished data collected by the United States Forest Service, indicate that the total annual increment of white pine in New England may amount to between 500 and 525 million board feet at the present time. Against this growth is the average annual lumber cut of 622 million, together with an estimated ten million or more board feet consumed by the cooperage industry, an unknown quantity used for pulp and other purposes, and the annual loss from fire and the activities of insects and tree diseases. An allowance of 100 million board feet above the amount required for lumber and box production appears conservative. The total annual drain of white pine from the forests, therefore, is more than 720 million feet. The deficit, which comes out of the reserve stand (our capital), averages about 200 million.

On the basis of these estimates, the reserve stand is sufficient to last about 35 years, but this concept lacks realism. It assumes that enough trees will come to cutting size each year to provide the needed quantity of timber. That will be true only if there is an even distribution of trees through all the various stages of growth. The evidence is against this assumption. Much of the timber cutting in recent years has been of the clear-cutting type. It is probable that too large a proportion of the replacement growth is in small trees that will not reach marketable size within the next 40 years. It appears that we are working ourselves toward a gap in the schedule during which we shall have to wait for some more trees to grow large enough to cut. The shortage of available white pine timber has become increasingly apparent to lumber manufacturers in recent years. If we want to continue to have white pine, we must do something positive about it.

"More White Pine for New England" would be an appropriate slogan for an organized attack on the problem of the region's shrinking pine reserves. American Forest Products Industries is already organized for "more trees." It may or may not be desirable to organize for so specific a purpose as increasing New England's pine stock. The purpose here is merely to emphasize the importance of white pine as an individual species. All groups — industrial, agricultural, financial, commercial, and professional — could appropriately join with the wood-products manufacturers, the forest owners, and the private and public foresters for a concerted effort to increase the annual output of white pine from New England's forests. How could such a purpose be achieved?



There is undoubtedly a place for research in the silviculture and management of white pine in New England, but the emphasis should be on application of findings of past research combined with plain common sense.

There are several steps in New England's forestry program. The major ones are (1) better protection against damage by fire, insects, and tree diseases, (2) reduction of the quantity of wood material wasted in logging and manufacturing operations, (3) improved cutting practices, and (4) intensified and more widespread application of forest management to young, growing stands.

Fire protection is of special importance to white pine, because it is more readily susceptible to fire damage than most other species. White pine has its own private tree disease, the white pine blister rust, which has been a continuing severe threat since it was brought from overseas 40 years or more ago. Working under the bark, the disease causes cankers that result in death. It is one of the alternate-host fungi. The other host is any species of the currant and gooseberry group. Control consists of eliminating the alternate hosts from the forests and from farms and gardens near white pine forests. Uncontrolled, the disease would probably eventually make white pine extinct. There must be no relaxation of the

blister rust control program, locally or nationally.

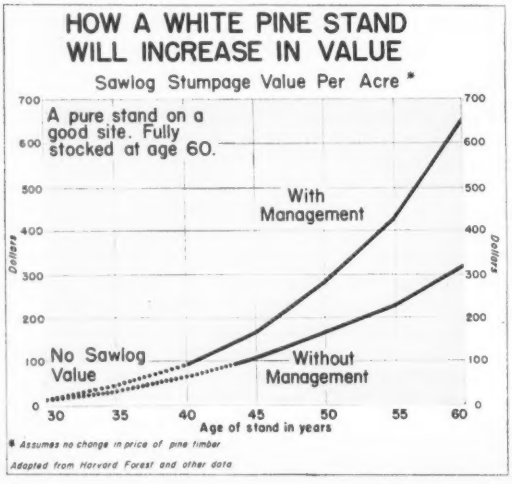
White pine also has its own private insect — the white-pine weevil. The larvae of this pest attack and kill the tip of the main stem. After the so-called "leader" is killed, the top branches turn upward and take on the job of making the tree taller. At best this results in a crook in the trunk. Forking into two or more trunks often takes place. The weevil has never killed a white pine, but it hinders the efforts of the trees to produce straight logs and good-quality timber. No practical method of controlling the weevil has been found, but one is needed.

White pine is like any other tree or agricultural crop. It competes with other growth and tries to surpass it. Too often the "weed" competition is too great. We need management of the forest while it is in the formative stage to bring our white pine crop to maturity. Otherwise, less valuable species will occupy land well adapted to growing white pine. Thinning, weeding, and improvement-cutting operations bring beneficial results in young forests, just as similar operations do in turnip or carrot patches.

Most of all, we need general revision in our methods of harvesting the white pine crop. Too much of our cutting is still being done without regard to future production. Destructive clear-cutting and high-grading (taking out all the best trees with no thought to the damage done to the forest) should be replaced by selective, group, or other types of cutting specially designed to increase future productivity. Timber operators should continually keep in mind the desirability of giving the young white pine a chance.

Perhaps most importantly, some provision should be made to avoid the cutting of immature, rapidly growing white pine. A quick dollar can often be made from cutting and sawing pines that have not yet reached standard sawlog size, and this type of operation has been common for a number of years. It was particularly prevalent during World War II.

Under unaided natural conditions, it will take 15 years for a stand of white pine on a good site to increase in average diameter from nine to 11 inches. During that period the lumber content of the stand will nearly double. Under good management, the increase in diameter and near doubling of the volume can be accomplished in nine years.


HOW A WHITE PINE STAND WILL INCREASE IN VALUE
Sawlog Stumpage Value Per Acre *
A pure stand on a good site. Fully stocked at age 60.
With Management
No Sawlog Value
Without Management
Dollars
Age of stand in years
* Assumes no change in price of pine timber
Adapted from Harvard Forest and other data

The accompanying chart shows that when stumpage values are considered, the results of good management are still more striking. A thousand feet of timber in larger trees, other things being equal, is worth more than the same quantity in smaller trees. Furthermore, progressive forest management brings improvement in quality. Without management, a good 40-year stand of white pine will double in value in ten years. With good forest management, the value will triple. At age 60, the gross value of managed stands is twice that of unmanaged stands. These conclusions assume that management is begun before the trees are 30 years old. New England has a large acreage bearing white pine trees less than 30 years old.

The importance of white pine being what it is, waiting for natural growth would be good for the regional economy. It would be good business for the owner, too, but applying progressive forest management would be still better. The point is that cutting undersize white pine timber is like killing the goose that laid the golden eggs. The best forestry is the kind that gets results in 10 or 15 years, not the kind that takes 50 or 60 years. The rewards for improved cutting methods are obvious and not long deferred.

The economics of forest improvement operations is less clear-cut. When we ask an owner to thin or weed his young stands, we usually ask him to make a cash outlay in return for which he gets only the prospect of a profit at some time in the more or less indefinite future. Some way of avoiding the cash outlay is needed. This can be accomplished if methods are developed for utilizing the young trees that compete with the pine. We need more pulp mills, wallboard plants, charcoal kilns, and other means of conferring value on the wood taken out in thinning and improvement-cutting operations. White pine will respond to the better conditions that result from such operations and repay us in more and larger trees available for cutting in later years.

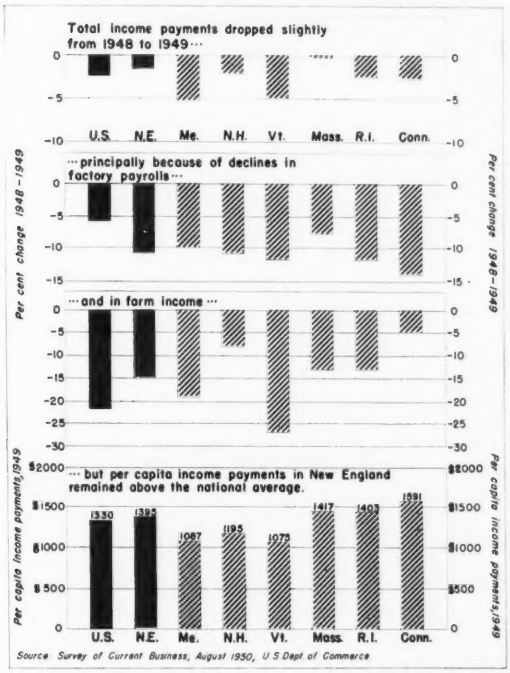
A change in our method of taxing forest properties is another requirement for the best forest management. White pine suffers under the common methods of property-tax assessment on forest ownerships, like any other timber tree. The forest tax reform adopted by New Hampshire in 1949 may result in an increased yield of white pine timber in that state as its influence becomes more effective.[2]

On the whole, Nature was not over-bountiful in her bequests to New England. It can never be said of New England that her natural resources account mainly for her economic success. It still makes sense, nevertheless, to make the most of the natural advantages that New England does have. Eastern white pine is one of those advantages. The University of Massachusetts says that white pine will grow more wood per acre than any other tree east of the Pacific Coast region. White pine is working for us, but the blister rust, the white-pine weevil, fire, and, most of all, human agents of destruction are working against us. Let's give this versatile and naturally prolific tree a lift.

[2] For a general discussion of forest-property taxation, see "Forest Taxation: Penalty or Incentive?", *Monthly Review*, June 1949.

Changes in Income Payments

New England and United States


Total income payments dropped slightly from 1948 to 1949···
U.S. N.E. Me. N.H. Vt. Mass. R.I. Conn.
···principally because of declines in factory payrolls···
···and in farm income···
Per cent change 1948 - 1949
Per cent change 1948-1949
···but per capita income payments in New England remained above the national average.
Per capita income payments, 1949
Per capita income payments, 1949
$1330 $1395 $1087 $1195 $1075 $1417 $1403 $1591
Source: Survey of Current Business, August 1950, U S Dept of Commerce

INCOME PAYMENTS received by individuals during 1949[1] were strongly influenced by moderate recessionary movements in business activity during the early part of the year and by the subsequent business recovery in the later months. The net effect upon 1949 income payments was a reduction in volume from 1948 levels, especially for those components of income which flowed from factory and farm operations. Income payments in New England states followed this general pattern in varying degrees of decline.

Total income payments in the nation dropped by 2.4 per cent from 1948 to 1949. Declines were especially severe in some of the midwestern agricultural states which had experienced the greatest increases from 1947 to 1948. Declines in New England averaged 1.6 per cent, with a range from 0.2 per cent in Massachusetts to 5.1 per cent in Maine.

Reduced factory payrolls constituted one of the main causes for decreased income. The recessionary trends which dominated business activity during the earlier part of 1949 indicated that postwar expansion of production in many manufacturing industries had finally caught up with demand. In consequence, inventories were reduced, production schedules cut back, and factory employment slackened. A subsequent recovery during the late months of 1949 was not sufficient to offset the losses incurred earlier in that year.

For the nation as a whole, manufacturing payrolls declined by six per cent from 1948 to 1949. The corresponding drop in New England averaged 11 per cent, and reached a maximum decline of 14 per cent in Connecticut. The severity of the percentage declines in manufacturing payrolls in New England had an aggravated effect upon total income payments in the area because of the greater dependence of New England's economy upon manufacturing activity. While only 22.1 per cent of the nation's total income payments was derived from factory payrolls, the corresponding percentage for New England was 29.6. In 1949 factory payrolls had a percentage importance of 33.8 in Connecticut, 32.6 in Rhode Island, 29.9 in New Hampshire, 28.2 in Massachusetts, 26.2 in Maine, and 21.8 in Vermont. Thus the impact of reduced manufacturing activities was severe upon incomes in New England's more industrialized areas. However, the leverage from manufacturing can be as stimulating in the present boom as it was enervating during the recent recession.

The second factor of importance in reducing income payments from 1948 to 1949 was the drop in farm income. The high level of prices for farm products which had prevailed during and after the war became increasingly vulnerable in the light of record volumes of production and lessened domestic and foreign demand. Prices of farm products dropped sharply in 1949, and the impact was heavy upon incomes in some parts of the country. The effect in New England, however, was mainly restricted to Maine and Vermont.

Nationally, income payments from agricultural sources declined by 22 per cent from 1948 to 1949, and 8.0 per cent of total income payments came from this source. In New England, however, the decline was only 15 per cent, and only 2.4 per cent of total income payments originated from this source. Vermont showed a drop of 27 per cent in farm income, which in 1949 accounted for 10.4 per cent of total income payments in the state. Maine showed a drop of 19 per cent, farm income accounting for 8.4 per cent of total income payments. Changes in other New England states were of slight importance.

In contrast to trends in factory and farm income, income payments from other sources were almost universally up in 1949 from those in 1948. Increased Government operations and social security payments took up some of the sag in income resulting from manufacturing activities. Trade, service, and construction income payments were generally above 1948 levels.

Total income payments in New England during 1949 were $13,247 million, the highest on record except for 1948. Despite the reduction in total income payments in 1949, New England's per capita income of $1,395 remained well above the national average of $1,330. Connecticut's per capita income of $1,591 exceeded that in all but five other states and the District of Columbia. Per capita incomes of $1,417 in Massachusetts, and of $1,403 in Rhode Island were also above the national average.

[1] This analysis of changes in income payments in New England has been adapted from the article "State Income Payments in 1949," which appeared in the August 1950 issue of the *Survey of Current Business*, published by the U. S. Department of Commerce.

Monthly Review
FEDERAL RESERVE BANK OF BOSTON

Member Bank Profits - *First Half 1950*

BANK CREDIT EXPANSION in New England, which was interrupted in 1948 and the first half of 1949, was resumed in the 12 months ending June 1950. The expansion was reflected in the earnings and profits of New England member banks. Net profits aggregated $17.3 million for the first six months of 1950, and were 22 per cent higher than in the first half of 1949 and seven per cent above net profits in the second half of the year.[1] Both Boston banks and those outside the city reported larger profits. On an annual basis net profits were about 5.8 per cent of total capital accounts in Boston and 6.8 per cent at the banks outside. The rates were moderately higher than those reported last year. In the nation the rate earned on capital accounts was 8.5 per cent.

Boston banks reported larger total and net current earnings. The larger net current earnings resulted from larger increases in earnings than expenses. In contrast to banks in Boston, those outside experienced slightly smaller total earnings than in the previous period, but net current earnings and net profits increased because of reduced expenses and smaller charge-offs.

Outlays for expense showed a small increase as compared with those for the first half of last year at both groups of banks. Compared with the last half of 1949 the outside banks reported lower expenses, chiefly because of smaller outlays for salaries. During the last half of 1949 bonus payments were made to employees and officers, which provides the contrast with the current half-year. In recent periods expenses at both groups of banks have shown reasonable stability in relation to total earnings.

Net charge-offs were substantially reduced at both Boston and outside banks when compared with the half-year periods in 1949. Losses and charge-offs on securities, contrary to the experience with loans, were more than offset by recoveries and profits on securities sold or redeemed. The amounts transferred to reserves against possible future losses on loans, permitted under the 1947 Treasury ruling, were smaller because many banks had increased these reserves to the maximum permitted. Reflecting the improvement in profits, payments and accruals on taxes were somewhat higher than in the corresponding period in 1949. Over half of the net profits were distributed as dividends, about the same as in 1949. The balance was carried to capital.

Changes in Sources of Earnings

1. COMMERCIAL LOANS — Since mid-1949 business loans in Boston have recovered moderately from the large decline which was experienced during the first half of that year. On June 30 these loans stood at $490.5 million, up about seven per cent from the year's end and 11 per cent above the amount outstanding on the same date last year. These loans were still 18 per cent below the record peak of $580 million reached late in 1948. Reflecting the steady improvement in business in recent months, a large part of commercial loans have been used to finance inventories and customer receivables. Finance companies also have been among the leading borrowers, using the proceeds to finance both consumer purchases and inventories of their customers. Plant and equipment expenditures have approached the levels of last year. Banks in Boston draw many of their loans from large business all over the country and some of the fluctuation which occurred during the spring may reflect refinancing of bank credit in the securities market.

This improvement in business loans was also characteristic at the banks in the district's principal cities outside Boston, and for many of the same reasons. Commercial loans at this group of banks amounted to $186.0 million on June 30, up 12.7 per cent from the year's end. The decline in loans at this group of banks during the first half of 1949 was much more moderate and of shorter duration than in Boston. The increase this year has carried these loans above the record level reached in early 1949.

Commercial loans at the "country" banks (those outside the reporting cities) also increased about 12.5 per cent from the year's end, and at the end of June amounted to $234 million. Loans at this group of banks have shown less fluctuation over the past 12 months than they have at the "city" banks. Likewise the decline in the first half of 1949 was much more moderate — about nine per cent as compared with 14 per cent at the "city" banks. Many of the loans at the "country" banks are made to small businesses of the type which have sustained credit demands in a period of active business and have few alternative sources of funds.

2. OTHER LOANS — Real estate loans have continued to expand in all areas of the district. The increase during the first six months of 1950 in Boston was significant and amounted to about 30 per cent. The banks outside

MEMBER BANK EARNINGS, EXPENSES, AND PROFITS
(Amounts in Thousands of Dollars)

	Boston		Other First District Banks	
	First Half 1950	% Change from Second Half 1949	First Half 1950	% Change from Second Half 1949
Earnings:				
Interest received on bonds and stocks.	$ 8,940	— 0.6%	$17,355	— 2.0%
Interest received on loans and discounts	11,873	+ 5.3	25,202	+ 0.6
Service charges on deposits	993	+ 5.5	4,127	+ 3.0
Trust department	3,360	+ 3.1	2,766	—18.8
All other income	3,005	+ 1.2	3,829	— 2.5
Total earnings	**$28,171**	**+ 2.9%**	**$53,279**	**— 1.5%**
Expenses:				
Salaries and wages	$ 9,283	+ 0.5%	$17,086	— 9.7%
Interest paid on time deposits	847	— 0.1	5,584	— 1.1
All other expenses	7,406	+ 5.5	13,091	+ 3.5
Total expenses	**$17,536**	**+ 2.5%**	**$35,761**	**— 3.9%**
Net losses	1,384	—21.5	1,481	—53.1
Profits before income taxes	$ 9,251	+ 8.7%	$16,037	+17.0%
Taxes on net income	2,940	+27.9	5,021	+34.4
Net profits	**$ 6,311**	**+ 1.5%**	**$11,016**	**+10.4%**
Dividends declared on common stock	$ 3,644	—13.8%	$ 5,105	— 6.6%

[1] Usual differences in some items do not invalidate comparison of first half-year earnings with those in the second half. However, comparisons should be made with care. For example, bonuses paid to the staff and losses and charge-offs are normally reported in larger volume in the second half of the year than in the first.

Boston reported increases of only five per cent. Funds available for mortgage investment have been large and the returns attractive relative to those on alternative investments. Federal guarantee or insurance of mortgages has continued to be an important factor in real estate lending this year.

Consumer loans have likewise continued to increase steadily at all district banks over the last six months. Automobile-sale credit was an important factor leading to the increase. At Boston banks these loans increased about 31 per cent. Other sale credit, covering a miscellaneous list of durable goods, rose slightly. Instalment loans were up about 15 per cent. At banks outside the city, automobile-sale credit increased more moderately, about 18 per cent. Other sale credit, however, was up 25 per cent. The increase in instalment loans was about the same as in Boston.

Earnings on total loans increased about five per cent in Boston from those in the second half of 1949, but were practically unchanged at the banks outside. Slightly lower earning rates, both in Boston and outside, held the volume down. Both groups of banks, however, show substantial increases in loans as compared with both halves of last year.

MEMBER BANK CONDITION
(Amounts in Thousands of Dollars)

	Boston		Other First District Banks	
	June 30, 1950	% Change from Dec. 31, 1949	June 30, 1950	% Change from Dec. 31, 1949
Assets:				
Total reserves, cash and balances	**$ 523,622**	**—12.2%**	**$ 728,385**	**—10.4%**
Total U. S. securities	949,283	—10.2	1,750,184	— 3.9
Other securities	143,812	+75.3	302,853	+17.3
Commercial and industrial loans	490,527	+ 7.7	419,921	+12.6
Real estate loans	83,379	+30.2	336,970	+ 5.1
Other loans to individuals	130,722	+ 7.9	306,232	+10.9
All other loans	70,743	—10.7	80,715	+ 3.4
Less reserve for bad debt losses, etc.	15,764	+ 5.2	16,528	+12.9
Total loans and discounts	759,607	+ 7.8	1,127,310	+ 9.1
Total loans and investments	**$1,852,702**	**+ 0.5%**	**$3,180,347**	**+ 2.2%**
All other assets	50,682	— 3.5	52,675	+ 4.5
Total assets	**$2,427,006**	**— 2.7%**	**$3,961,407**	**— 0.4%**
Liabilities:				
Demand deposits	$1,966,159	— 4.1	$2,546,959	— 1.0
Time deposits	194,715	+ 3.4	1,060,309	+ 0.2
All other liabilities	50,096	+22.0	30,378	+11.2
Capital Accounts	$ 216,036	+ 1.3%	$ 323,761	+ 2.3

3. INVESTMENTS — All banks increased their investments in state and local government securities, reflecting commercial bank financing of part of state and local government expenditure programs. Holdings of United States securities were reduced by most banks in the district. The funds released through sales went to increase the holdings of state and local government securities and into loans.

The maturity distribution of United States security holdings since December has continued to lengthen, and particularly heavy commitments were made in medium- and long-term bonds. Holdings of bills and certificates decreased. Average earnings rates on United States securities were up as a result of additions of longer-term Governments and the modest increases in rates on bills and certificates. The proportion of earnings received from United States securities as contrasted with loans remained about the same as it was in both six-month periods of 1949 in Boston; at the outside banks the proportion from United States securities declined and that from loans increased. Earnings from other sources generally increased at both groups of banks. Trust department income at the outside banks, however, was off about 19 per cent.

Recent Monetary Policy

Monetary policy in recent months has been directed toward moderate restraint of business activity. In early 1950 the large volume of funds in the hands of nonbank investors had forced Government bonds to premium levels with a consequent decline in yields. Long-term credit in the security and mortgage markets had become available on relatively easy terms. The Reserve System attempted to modify this situation by selling long-term Government bonds from its portfolio. Thus, part of the supply of investment funds was absorbed. Sales exerted some pressure on bank reserves and also influenced a slight rise in long-term yields. In response to the strong demand for business loans, the System allowed market yields on Treasury bills and certificates to rise gradually. Bank rates on business loans, however, which had declined slightly during the first quarter of 1950 in Boston and at the banks outside, remained substantially unchanged during the second quarter. These rates at Boston banks, although at the highest level since June 1949, were still somewhat below those on that date. Rates on business loans at New England banks, contrary to experience in the nation, failed to accompany the advance in rates on Treasury bills and certificates. Yields on Treasury bills and certificates moved steadily upward during the second quarter and at the end of June were slightly above the level of June 1949.

Bank earnings for the second half of 1950 may be close to those reported in the first half. At least they should be as good as the earnings reported in the second half of 1948. Much will depend, however, upon the methods adopted by the administration to meet the country's obligations incurred by the commitment of United States forces in Korea. Various courses of action will have different effects upon the domestic economy. Defense expenditures will have to be increased substantially. As a complement, substantial cuts should be made in other types of federal expenditure. Even though taxes are raised, some resort may have to be made to borrowing from the banks because of differences in timing of receipts and expenditures. This may lead to further increases in the money supply. Reimposition of Regulation W, possible further restriction of real estate loans, and increases in taxes will probably slow the expansion of banks' loans, but it seems probable that the demand for credit will continue to be strong, particularly in the housing field and consumer credit, for the balance of the year. After reducing other types of federal expenditure, the costs of defense and the war should be financed through direct taxation. This action would have the effect of reducing Government borrowing and absorbing funds which might be used for the purchase of scarce goods. The control of the money supply and the related inflation in the coming period is a matter of critical importance.

Monthly Review
FEDERAL RESERVE BANK OF BOSTON

Consumer Buying Momentum Slackens in August

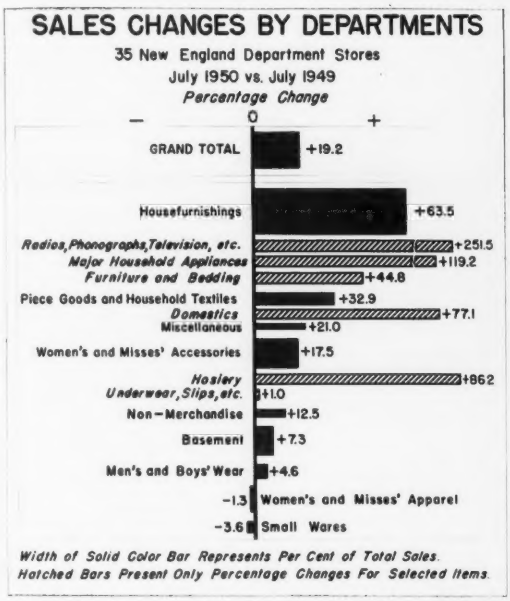
THE RUSH of consumers to buy in anticipation of scarcities and higher prices after the Korean crisis apparently reached its crest during the weeks of July 22 and July 29 in the Boston Federal Reserve District. Dollar sales in 45 New England department stores during those weeks were 37 and 36 per cent above sales for the corresponding weeks last year. Sales then gradually reverted to their 1949 pattern, until by the week ending September 2 they posted an increase of only two per cent. New England department store sales in July 1950 exceeded those in July 1949 by 20 per cent, but more normal buying in August resulted in an increase of 16 per cent.

The boost in department store sales during July and August came principally from consumer interest in the housefurnishings, piece goods and household textiles, and women's and misses' accessories departments. The importance of television sets, major household appliances, furniture and bedding, sheets, and hosiery stand out vividly in an accompanying chart. Preliminary sales data for August indicated that durable consumer goods still were dominant, but that they had lost some of the strength which they had assumed in July.

Merchandise orders outstanding of downtown Boston department stores at the end of July 1950 were 110 per cent higher than their level on the corresponding date in 1949. This extended forward buying illustrates how retailers strove to adjust their operations to changed buying habits of consumers, depleted inventories, and future prospects of higher consumer incomes. Increases in outstanding orders of 245 per cent for housefurnishings, 172 per cent for piece goods and household textiles, and 140 per cent for women's and misses' accessories conformed with the high percentage increases in sales for those departments during July.

The marked shift in consumer preference to durable goods during July, and to a lesser extent in August, blocked the growing relative importance of nondurable consumer goods which was evident during the first six months of 1950. By June 1950 sales of housefurnishings had lost some of their previous importance in total sales, but in July and August they again took considerably more of the dollars spent by consumers in New England department stores than they had in the same months last year.

An increase in consumer instalment credit enabled the sales of durable consumer goods to reach their higher levels. Instalment sales in a sample of New England department stores increased by 103 per cent in July 1950 over those in July 1949, and their relative importance to total sales increased from nine per cent in July 1949 to 15 per cent in July 1950. In a smaller group of stores with important housefurnishings departments, weekly instalment sales soared as high as 169 per cent above their level last year for the week ending July 22. Instalment sales in this special sample of



stores also became relatively more important. For the week ending July 29 they had reached 29 per cent of total sales in contrast with an importance of only 16 per cent in the same week of 1949. As consumers returned to more normal buying habits, instalment sales lost their exaggerated importance. By the week of August 26 they were only 20 per cent of total sales, much closer to the 18 per cent of a year ago.

Increases in instalment sales during July and August of 1950 over those in 1949 have added significance because instalment sales had already begun to rise in those months last year after the termination of Regulation W on June 30, 1949. Liberality in extension of consumer credit had progressed farther by July and August this year, but no down payment and longer periods of repayment terms had already made their appearance a year ago. Competitive liberalization of credit terms to obtain a larger volume of sales had begun to spread. The reactivation of consumer instalment credit regulations came after the flurry of instalment sales in the immediate period following the Korean crisis, but will set forth the minimum terms for grants during the period when they are in force.

Although consumers assumed a greater volume of instalment obligations in July and August, they also used some of their liquid assets to purchase goods during their buying splurge. Deposits in 78 New England mutual savings banks dropped in July for the first time since October 1949. Share and savings equities in New England federal savings and loan associations experienced a larger drop from June to July in 1950 than in 1949.